OEB Multi Year Incentive Rate Regulation for Natural Gas Utilities

EB-2006-0209

Submissions of TransCanada PipeLines Limited

TransCanada
In business to deliver

Principles

- Multi-year Incentive Regulations must respect the regulatory principle that rates be just and reasonable

- Just and reasonable rates should generally reflect underlying costs (cost causation principle)

- Functions that are anticipated to have different cost profiles should have different rate escalators

- Cost expectations should be examined separately, then the appropriate escalator for each function should be decided

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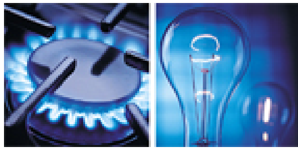
Capital Expenditures by Function



Transmission and Distribution Capital Expenditures Profiles are Dissimilar

- Transmission:
  - Capital Expenditures are highly variable from year-to-year, depending on capacity additions (ranged from 1.3% to 10.3% as a percentage of Union's transmission GPIS)
  - Reflect impact of "lumpy" capital additions and nature of the addition (i.e., mains or compression)
- Distribution:
  - Much more predictable and less variable from year to year (additions ranged from 2.1% to 3.7% of Union's distribution GPIS)

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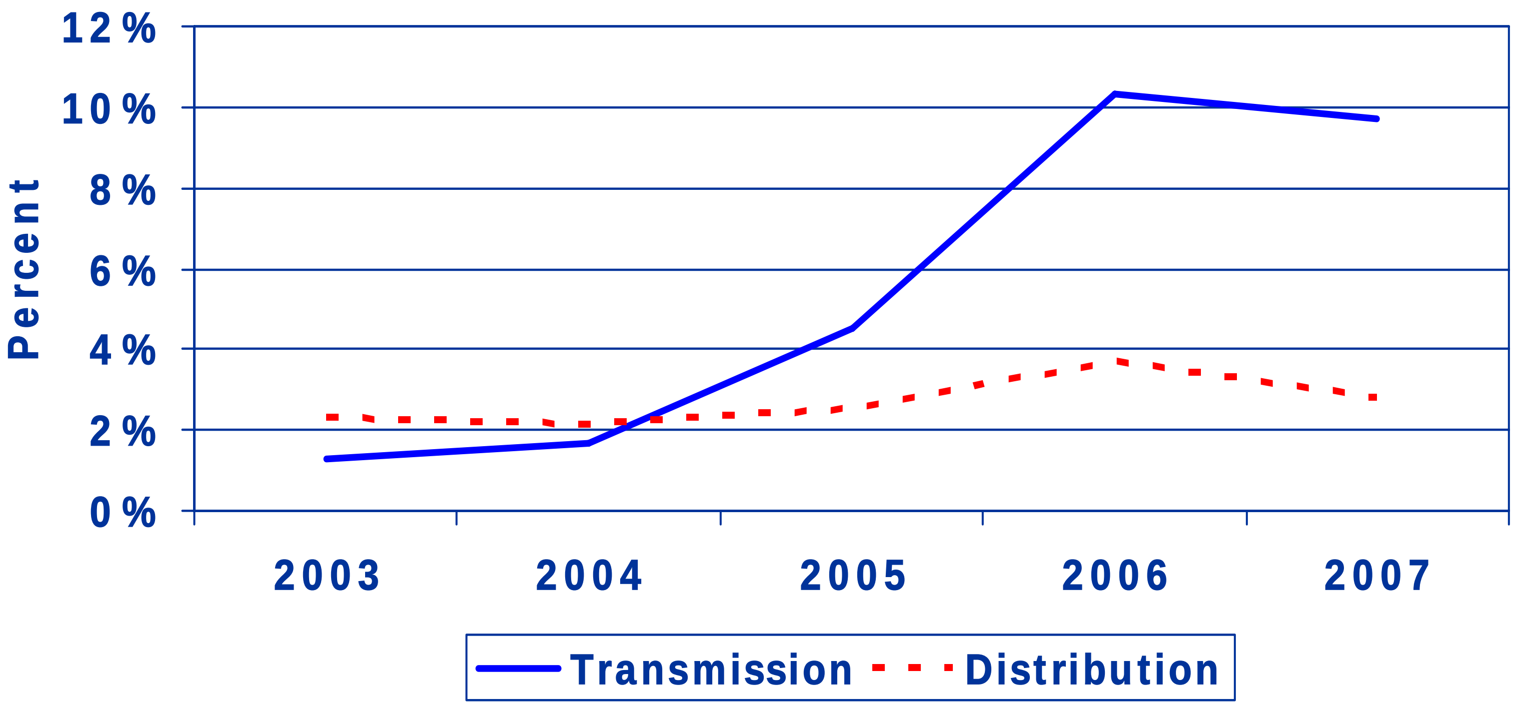
Capital Expenditures by Functions (con't)

Capacity addititions as a Percentage of GPIS by Function



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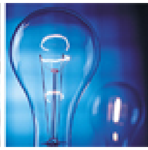
Forecast Transmission Capacity Additions of Union Gas Limited (Union)

- Union expects major capacity additions over the next five years

- Unlike recent additions, which have been relatively expensive, future expansions are expected to be relatively low cost

- Future rates should reflect the expected addition of relatively low cost transmission facilities. This can be done by:
  - Applying separate escalator to transmission; or
  - Making transmission capacity additions a Z factor

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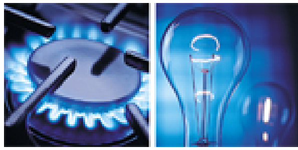
Union’s Transmission Facilities Expansion Program



Year	Design Capacity Added (TJ/d)	Facility Capital Cost ($million)	Cost per Unit of Capacity added ($/GJ/D)
2006	384	149.4	388.8
2007	492	101.3	205.9
2008	349	47.3	135.7
2009	300	48.3	161.1
2010	-	-	-
2011	228	57.5	252.0
Total	**1,753**	**403.9**	**230.4**